Statement of
The Honorable Jeffrey A. Rosen
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Before the
Subcommittee on Railroads
Committee on Transportation and Infrastructure
House of Representatives
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Mr. Chairman, Ranking Member Brown, and members of the Subcommittee, I appreciate the opportunity to appear before you today to discuss the continued urgent need for reform of intercity passenger rail service.

Introduction

Our economy's ability to move hundreds of millions of people annually within our Country is one its essential characteristics. Airplanes, buses, cars and trucks, ships, and trains all contribute to the mobility that Americans demand and deserve. Intercity passenger rail is a small but potentially important part of that, which is why the Administration wants to save and improve it.

Amtrak, however, presents all of us with a problem: Amtrak's revenues from ticket sales this year will not cover even 50% of the company's expenditures; indeed, Amtrak's operating loss alone will exceed $550 million. At the same time, Amtrak's debts exceed $3.5 billion, or roughly triple its annual ticket sales. Were Amtrak an airline, a bus company, or a cruise ship company, it would be facing either (a) a need for prompt and fundamental business changes, or (b) bankruptcy. It should surprise no one, therefore, that the Administration has sought prompt and fundamental change in Amtrak and the overall system of intercity passenger rail. Without that change, intercity passenger rail will fail to realize its potential as an important element of the Nation's transportation system.

Earlier this year, the Administration issued a clarion call for change, and Secretary Mineta has repeatedly called for reform and improvement of our system of intercity passenger rail nationwide. (Secretary Mineta's speeches on this topic are available at: http://www.dot.gov/affairs/ostind05.htm) In response, some interesting things have happened. Perhaps most significantly, Amtrak itself has acknowledged the urgent need for real reform, and issued a "Strategic Reform Initiative" plan that borrows major elements of the Administration's proposals**.** Within the Congress, the Senate Commerce Committee's rail subcommittee has voted out the Passenger Rail Improvement Act (S.1516). The bill undertakes certain specific reforms, such as addressing the poor performance of Amtrak's long-distance trains. In addition, the Senate Appropriations committee's transportation subcommittee has reported a bill whose funding terms would preclude Amtrak from subsidizing losses on food service and luxury first-class sleeper cars for vacationers and others. However, overall, the reforms considered by Congress are not as comprehensive or as critical as those proposed by the Administration.

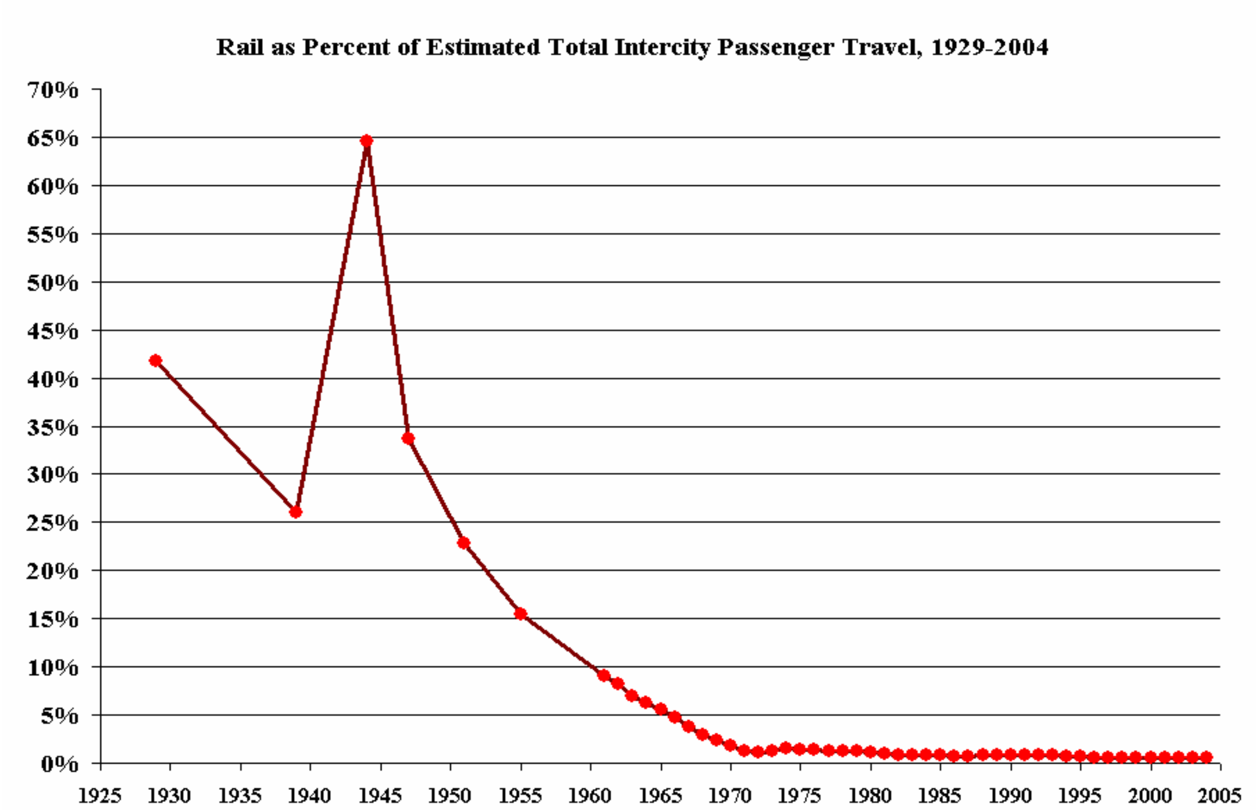
Secretary Mineta remains convinced that fundamental change in the way we support intercity passenger rail service is not only necessary but inevitable. The Administration is pleased that Amtrak and some in Congress have acknowledged the Administration's call to action. At the same time, we still have a way to go to achieve the fundamental legislative reforms that are needed. The status quo, in which federal taxpayers have been called upon to pay Amtrak's escalating losses year after year, cannot continue. Proposals to reauthorize Amtrak as it is, coupled with greater taxpayer subsidies, are both unwise and unrealistic. They would jeopardize the future of intercity passenger rail, rather than improve it. By contrast, H.R. 1713 embodies the key principles of intercity passenger rail reform, and it is my hope that today's hearing will become the start of this Subcommittee's embracing the preservation, reform, and enhancement of intercity passenger rail in accord with those principles.

First and foremost, it is essential to recognize that the passenger rail service model created in 1970 is no longer viable. Amtrak operates a legacy system of routes incapable of adapting to market forces and demographic changes in an environment where every other mode of transportation does so to survive. Over the last three decades, America's transportation system as a whole—our system of roads, airports, waterways, transit lines, and the mostly private operators who use them—has grown tremendously. It provides excellent mobility, connectivity, and efficiency that have undergirded our economic growth. Sadly, intercity passenger rail has been a different story. Whatever one thinks of Amtrak or passenger rail more generally, this mode of transportation demands ever increasing taxpayer subsidies while consistently failing to meet the lowest of expectations.

I. RIDING THE RAILS: AMTRAK'S PAST AND PRESENT.

Congress created Amtrak in 1970 as a private corporation in a restructuring of the larger rail industry, which was in a state of major financial distress. In that restructuring, freight railroads ceased providing passenger service altogether. Instead, for the first time, there would be a single national provider of intercity passenger rail service to replace the multiple regional systems that reflected the areas covered by each of the freight railroads' route systems. The intent was that the national monopoly would reinvigorate passenger rail by permitting Amtrak to consolidate operations and achieve efficiencies that, after a very brief period of Federal assistance, would preserve and expand intercity passenger rail service as a for-profit company.

By now we know that the Congress's hopes and expectations in creating Amtrak have never been realized. Intercity passenger rail service has not been reinvigorated. The Department of Transportation (DOT) expects that each and every one of Amtrak's 15 long-distance trains will this year lose money on a fully allocated cost basis, even excluding depreciation and interest. On a per passenger basis, with depreciation and interest, the loss for long-distance trains ranged from $47 per passenger to $466 per passenger in FY 2004. But the long-distance trains are not alone: with depreciation and interest included, *every one* of Amtrak's 43 regularly scheduled routes loses money. After 34 years and $29 billion in Federal subsidies, intercity passenger rail's financial performance has not improved, service and on-time performance are below expectations, and passenger rail's market share relative to other modes has continued to erode. Last year's so-called "record" Amtrak ridership amounted to a one-half of one percent share of the total intercity passenger transportation market. Airlines alone carry more U.S. passengers in three weeks than Amtrak does in a year.



Sources: Rail travel: Association of American Railroads, *Yearbook of Railroad Facts*; Amtrak. Total intercity passenger travel is an FRA estimate synthesized from data provided by the Federal Highway Administration, Federal Aviation Administration, Bureau of Transportation Statistics (including travel behavior characteristics the 1995 American Travel Survey), the AAR, and Amtrak. For rail, “intercity” passenger-miles are an approximation as they include all passenger-miles generated on intercity trains, regardless of the length or purpose of individual trips. All air travel is deemed “intercity.” For highway modes (privately-owned vehicles and buses), the synthesis approximates intercity travel as trips of 100 miles or more one-way.

That also belies one of the frequent arguments of today’s defenders of the 1970 model– that the Federal government supposedly subsidizes other modes of transportation at a greater rate than Amtrak. In fact, FY 2005’s appropriated subsidy of $1.207 billion represented approximately 9 percent of the total discretionary Federal funds for the Department of Transportation. In other words, 9 percent of the Department’s funds go for one-half of one percent of the market. The argument also passes quickly over another important fact: highways, transit and aviation are, unlike rail, funded substantially by true user fees and also by state and local investments. (Even ardent rail proponents evince little interest in a Federal passenger rail ticket tax, and no such tax or user fees exist currently.) Perhaps most importantly, however, the argument overlooks that federal financial support for roads, airports, and transit goes to **infrastructure** and not to operations. In other modes of transportation, federal aid goes to highway and airport infrastructure, for example, but federal taxpayers are not regularly asked to write annual billion dollar checks to private trucking companies, private bus companies, private automobile commuters and vacationers, nor even to private airlines, although the taxpayers have regularly done so with regard to Amtrak.

In considering where we are with Amtrak, it is useful to consider the varied things that Amtrak presently does to understand that recent appropriations to this private company have not been limited to rail infrastructure, but also go into actual train operations. Generally, Amtrak's business can be grouped into activities relating to (1) rail infrastructure, (2) corridor train operations, and (3) long-distance train service.

Rail Infrastructure

Due to historical circumstances, Amtrak owns its own right of way and rail infrastructure along most of the Northeast Corridor (NEC), except in Massachusetts and part of Connecticut where the infrastructure is state owned. Amtrak also owns some infrastructure in Michigan, as well as train stations in a number of states. Otherwise, Amtrak mostly operates trains on rail infrastructure *owned by others*.

Within the Northeast Corridor, Amtrak controls the infrastructure not only for its own use, but for use by numerous other railroads and transit agencies. These other users of the NEC pay Amtrak for access and associated services, such as train dispatching. In total, trains operated by other users on the NEC actually exceed the number of trains operated by Amtrak itself on the NEC.

List of Users of the NEC Other than Amtrak

CSX	New Jersey Transit
Long Island Rail Road	Norfolk Southern
Maryland Rail Commuter Service	Providence and Worcester Railroad
Massachusetts Bay Transportation Authority	Shore Line East (Connecticut)
Metro-North Commuter Railroad	Southeastern Pennsylvania Transportation Authority
Delaware DOT	Virginia Railway Express
Rhode Island DOT	Consolidated Rail Corporation
Canadian Pacific	

Because of the way the 1970 model of intercity passenger rail was organized, maintenance and development of infrastructure throughout the entire NEC has been left to Amtrak. Federal infrastructure dollars are allocated by a single private corporation, Amtrak, instead of by state, local, or even federal transportation planning officials.

Corridor Services

When viewed from the operational perspective of moving passengers, and the distance they are moved (passenger-miles), Amtrak can be seen as providing two types of services: "corridor services" of approximately 100-500 miles and frequently under contract to States in which these corridors are located; and "long-distance", primarily leisure travel services. Approximately twenty million people, or 80 percent of all Amtrak riders in 2004, traveled on a corridor service. Within the category of corridor services, there are two different types: services on the Northeast corridor, where Amtrak operates on its own track and infrastructure, and services on other state corridors, where Amtrak operates on track and infrastructure owned and controlled by others.

NORTHEAST CORRIDOR. The largest portion of Amtrak corridor trips are on the Washington—New York City – Boston Northeast Corridor (NEC). If one looks only at NEC train *operations*--separate from the heavily subsidized NEC infrastructure--this is the one area where Amtrak trains operate at something close to a breakeven basis, or at least could do so if the company sought that objective.

OTHER CORRIDORS. In addition to the NEC main line, Amtrak operates trains for corridor service in fifteen other states**.**

List of States with Corridor Service Note: States listed are the primary states served by each corridor.	
CALIFORNIA Pacific Surfliner Capitols San Joaquins	**NEW YORK** Empire/Maple Leaf Adirondack
CONNECTICUT/MASSACHUSETTS Inland Route (New Haven-Springfield)	**NORTH CAROLINA** Carolinian (Extended corridor) Piedmont
ILLINOIS Chicago-St.Louis Illini Illinois Zephyr Hiawatha (with Wisconsin)	**OKLAHOMA** Heartland Flyer
MAINE The Downeaster	**OREGON** Cascades (with Washington)
MICHIGAN Wolverines Blue Water Pere Marquette	**PENNSYLVANIA** Keystone Service Pennsylvanian (Extended corridor)
MISSOURI Kansas City-St.Louis	**WASHINGTON** Cascades (with Oregon)
	WISCONSIN Hiawathas (with Illinois)
	VERMONT Ethan Allen Express Vermonter (Extended corridor)

In 2004, a total of approximately eight million people (i.e., about one-third of the total Amtrak ridership) traveled on these additional corridor routes. In many instances, these corridors are subsidized in part by States. State operating subsidies for these trains totaled ten percent of the combined Federal and State funding of Amtrak. However, States have not borne the full cost of these routes, and some States that have corridor trains have not paid anything at all, thereby producing issues of equity among the States, as well as market uncertainties about how travelers value the services. In the aggregate, on a fully-allocated basis, the non-NEC corridor trains (including both corridor and extended corridor service) had an average operating subsidy of $28 per passenger in FY 2004.

Long-Distance Services

Amtrak's fifteen long-distance trains have seen declining revenues and ridership--and increasing costs--over the last ten years. DOT refers to these services as Transcontinental (more than one night), Overnight (one night) or extended corridor (greater than 500 miles, but with no sleeping accommodations). Amtrak presently operates fifteen such trains.[1] Amtrak has continued to lose long-distance trip customers to an airline industry that is offering a low cost, high quality service, and to automobile drivers who choose to use convenient and accessible highways rather than fixed rail. Amtrak has had little or no success responding to this competition. As Amtrak's presence in this segment of the intercity transportation market has dwindled, Federal subsidies per passenger have continued to grow. In FY 2004, the average passenger on a long-distance train received a subsidy of approximately $214 per trip on a fully-allocated basis,[2] up from $158 in the year 2000 – a 35 percent increase quintupling the 7-percent inflation over the same period.

Fully Allocated Losses of Long-Distance Passenger Trains, FY 2004
(Source: Amtrak Route Profitability System)

Service Type	Route	Route No.	Subsidy Status: Unsubsidized by a State	Subsidy Status: Subsidized by a State	Fully Allocated Loss (Fully Loaded with Depreciation, Interest, and All Overheads)	Fully Allocated (Loss) Per Passenger	Fully Allocated (Loss) Per Passenger-Mile
EXTENDED CORRIDORS	Pennsylvanian	RT57	x		($11,911,500)	($69)	($0.337)
	Vermonter	RT04		x	($11,793,249)	($47)	($0.254)
	Carolinian	RT66		x	($16,723,244)	($55)	($0.197)
OVERNIGHT	Silver Service	RT16A	x		($173,078,522)	($234)	($0.374)
	Three Rivers *(discontinued)*	RT17	x		($75,173,377)	($492)	($0.990)
	Cardinal	RT18	x		($18,602,874)	($209)	($0.497)
	Capitol Limited	RT26	x		($43,784,083)	($242)	($0.486)
	City of New Orleans	RT30	x		($30,429,407)	($160)	($0.335)
	Texas Eagle	RT32	x		($42,914,712)	($183)	($0.282)
	Coast Starlight	RT34	x		($63,002,725)	($152)	($0.271)
	Lake Shore Limited	RT45	x		($63,803,165)	($228)	($0.387)
	Crescent	RT52	x		($64,761,043)	($252)	($0.445)
TRANS-CONTINENTAL	Empire Builder	RT25	x		($75,338,574)	($172)	($0.223)
	California Zephyr	RT27	x		($89,696,739)	($267)	($0.320)
	Southwest Chief	RT28	x		($121,849,944)	($420)	($0.390)
	Sunset Limited	RT33	x		($44,953,841)	($466)	($0.406)

[1] The long-distance routes are as follows: Vermonter, Silver Service, Cardinal, Empire Builder, Capitol Limited, California Zephyr, Southwest Chief, City of New Orleans, Texas Eagle, Sunset Limited, Coast Starlight, Lake Shore Limited, Crescent, Pennsylvanian, Carolinian. The Auto-Train, a specialized service, also operates over a long-distance route but with completely different characteristics. The Three Rivers (New York–Pittsburgh–Akron–Chicago) was discontinued in March 2005.
[2] Fully allocated costs include depreciation and interest.

Moreover, as DOT's Inspector General recently determined, passengers in Amtrak's first-class cabins of its long distance trains are actually *more* heavily-subsidized than coach passengers, with first-class subsidies per trip of up to $660 per passenger. Nonetheless, these long-distance trains have had considerable difficulty with regard to on-time departures and arrivals:

On-Time Performance of Long-Distance Trains, FY 2004

Train Name	Service type	Between	—And	Percent On-Time (Zero Tolerance)	Average Minutes Late per Train (All Trains)	Average Minutes Late per Late Train
California Zephyr	Transcon	Chicago	Bay Area	14.2%	136	159
Capitol Ltd.	Overnight	Chicago	Washington	13.8%	101	118
Cardinal	Overnight	Chicago	New York via Cincinnati	33.1%	48	74
Carolinian	Extended Corridor	New York	Charlotte	26.9%	38	51
City of New Orleans	Overnight	Chicago	New Orleans	47.7%	26	50
Coast Starlight	Overnight	Seattle	Los Angeles	10.8%	139	157
Crescent	Overnight	New York	New Orleans	41.6%	34	58
Empire Builder	Transcon	Chicago	Seattle	68.3%	11	36
Lake Shore Ltd.	Overnight	Chicago	New York	8.2%	123	134
Pennsylvanian	Extended Corridor	New York	Pittsburgh	17.2%	32	39
Silver Meteor	Overnight	New York	Miami	25.6%	84	113
Southwest Chief	Transcon	Chicago	Los Angeles	28.5%	68	96
Sunset Limited	Transcon	Orlando	Los Angeles	1.6%	359	366
Texas Eagle	Overnight	Chicago	San Antonio	41.9%	57	98
Vermonter	Extended Corridor	Washington	St. Albans VT	32.1%	21	30

Overall, the picture of where things stand in intercity passenger rail service is far from what was hoped for when Amtrak was created in 1970. In short, while service and ridership erode, Amtrak continues to require extraordinary and ever-increasing subsidies from federal taxpayers, a great many of whom enjoy little if any benefit from Amtrak's services. These continuing and increasing subsidies are not only wholly inconsistent with Congress's intent in 1970 that Amtrak be a "for-profit corporation," but they also flout Congress' clear call for an end to operating subsidies in the 1997 Amtrak Reform Act.

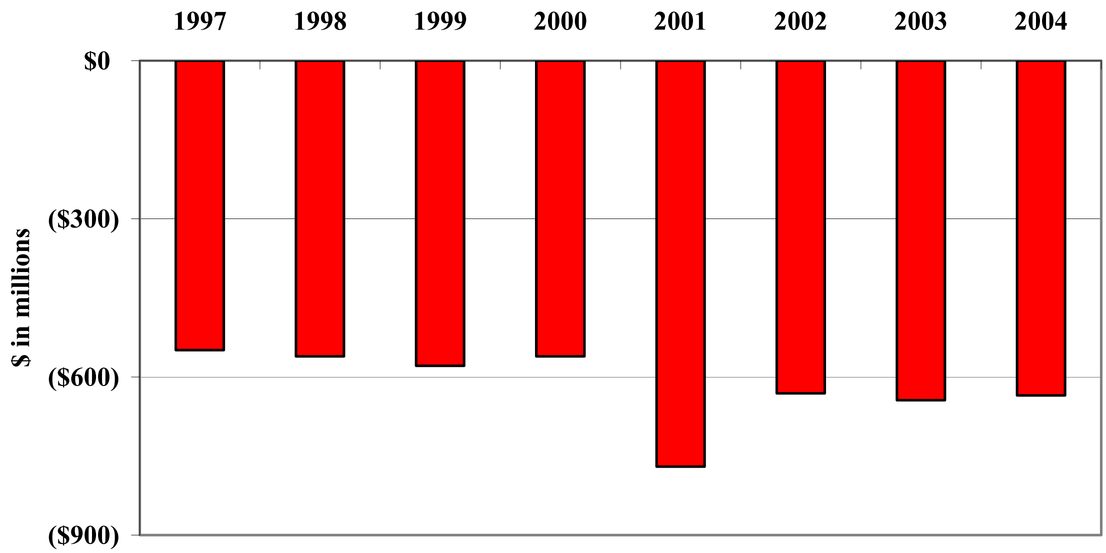
COMMUTER RAIL. Amtrak also has contracts to operate trains for transit agencies and state governments. These are: Connecticut Department of Transportation Shore Line East (SLE/CONNDOT), Long Island Rail Road (LIRR), New Jersey Transit (NJT), Southeastern Pennsylvania Transportation Authority (SEPTA), Delaware Transit Corporation (DELDOT), Maryland Transit Administration (MARC), Virginia Railway Express (VRE), Northeast Illinois Regional Commuter Railroad Corporation (METRA), Southern California Regional Rail Authority (SCRRA) Metrolink, North San Diego Country Transit District Coaster Commuter Rail Service, Peninsula Corridor Joint Powers Board (CALTRAIN), Central Puget Sound Regional Transit Authority (Sound Transit), and Altamont Commuter Express Authority (ACE). While commuter agencies periodically have the ability to replace Amtrak, as was done in Boston and in southern California, these local transit contracts have been used by Amtrak management from time to time to threaten Congress with a commuter shutdown if Amtrak's requests for taxpayer funding of intercity trains are not met.

II. <u>RECENT HISTORY AND THE CALL TO CHANGE</u>.

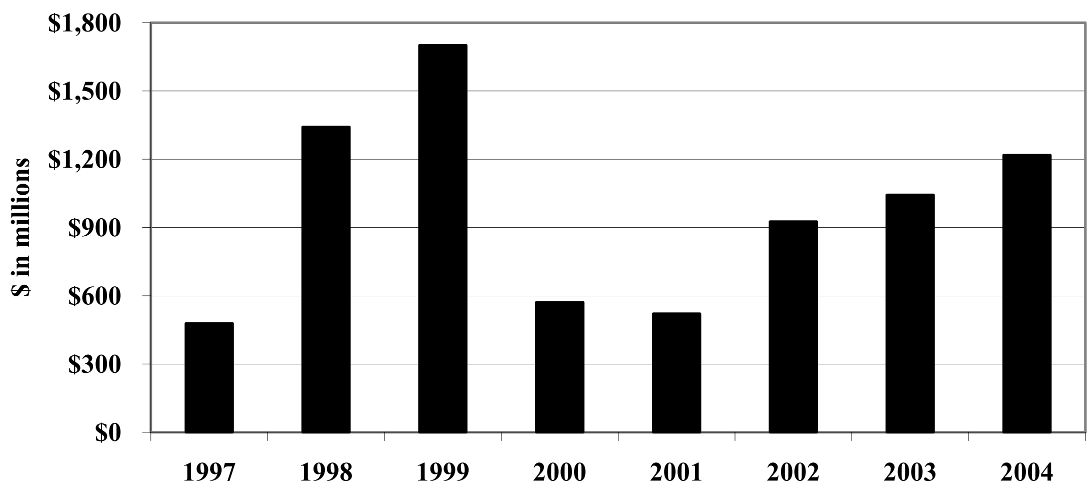
During the last decade, there has been an increasing recognition that the 1970 model of intercity passenger rail had some very serious problems. Congress sought to redress some of those in the 1997 Amtrak Reform Act. Unfortunately, the reforms embodied in the 1997 Act did not prove sufficient to solve the problems.

Many of the reforms in the 1997 Act empowered Amtrak to improve its own performance and removed impediments to its doing so. After passage of the 1997 Act, Amtrak's then-management repeatedly reported that it was it on a "glide path" to self-sufficiency by 2002. That did not happen. The problems worsened, and it became increasingly clear that they were not solely the result of business misjudgments, but also involved inherent flaws in the 1970 model.

Amtrak Cash Losses - 1997 Through 2004



Amtrak Federal Appropriations - 1997 Through 2004



Instead of a successful "glide path" to self-sufficiency by 2002, Secretary Mineta was greeted with some unwelcome surprises in his initial experiences with Amtrak during the current Administration. Early in 2001, instead of Amtrak being months from self-sufficiency as reported, Amtrak's then-management advised that Amtrak would be insolvent within two weeks unless DOT subordinated the interest of U.S. taxpayers to a foreign bank so that Amtrak could mortgage its rights to use the platforms at Pennsylvania Station in New York City. Within a year, Amtrak had lurched to yet another financial crisis, informing the Secretary that if the Department and Congress did not provide the company another $300 million, it would be insolvent within two weeks and would shut down commuter and intercity services. In response, to obtain time to assess and identify more long term reforms, DOT provided Amtrak a $100 million loan under the Railroad Rehabilitation and Improvement Financing Program, and Congress provided the remaining $205 million through a supplemental appropriation.

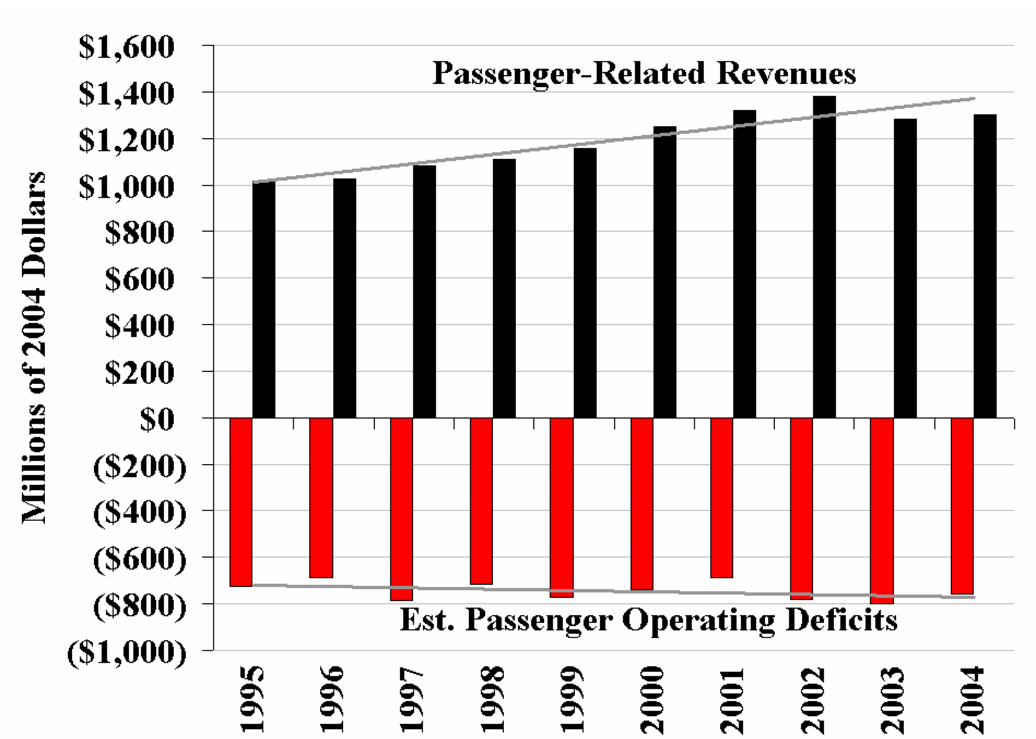
These crises highlighted fundamental problems, some of which needed immediate action by Amtrak, and some of which were revealed to be inherent to the 1970 business model and in need of legislative change. Among the most urgent for Amtrak itself was the state of its financial books and records. Indeed, it took independent auditors almost all of FY 2002 to close their audit of Amtrak's FY 2001 financial performance. That audit required $200 million in net audit adjustments and found 5 material weaknesses and 12 reportable conditions that needed to be addressed to fix the problems with Amtrak's accounting practices. It also revealed that Amtrak had taken on almost $3 billion in new debt in order to pay for (1) costly overruns of poorly managed capital improvements, (2) an unsuccessful foray into the express package business, and (3) day-to-day operational expenses.

Since 2002, Amtrak's record-keeping has improved. In 2005, the independent audit was completed in March instead of September and no material weaknesses were found. While Amtrak's auditors still find significant areas for improvement, they comment favorably on developments over the last three years.

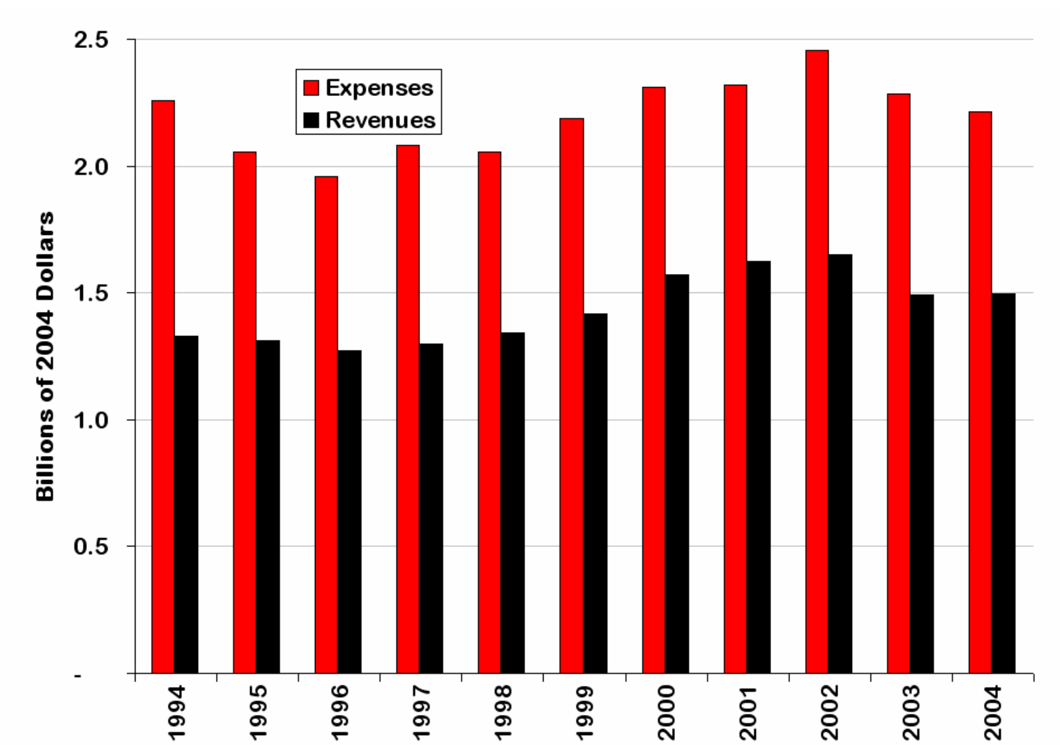
Through participation on the Amtrak Board, and through changes to the appropriations process that enabled stronger Federal Railroad Administration oversight of the grant process to Amtrak, Secretary Mineta and DOT have sought a variety of improvements that Amtrak could make on its own. That process continues and is ongoing.
But notwithstanding the very significant improvements and a much-enhanced and valuable involvement of the Amtrak Board, fundamental difficulties continue to confront Amtrak because the 1970 model of intercity passenger rail is a framework that is flawed. Amtrak continues to spend dramatically more money than the revenues it generates, and this year is actually spending at a pace greater than the appropriation from Congress.

As shown by the two charts below, the structural problem in Amtrak's condition is long-term, and is getting worse, not better.

Amtrak's Constant-Dollar Passenger Revenues and Estimated Passenger Deficits



Amtrak's Constant-Dollar Gap Between Core Expenses and Revenues



Further adding to Amtrak's deterioration is that the company's debt increased massively in the late 1990's, from $1.7 billion in 1997 to $4.8 billion by 2002 (with $3.8 billion non-defeased), without adequately increased passenger revenues to pay the debt service. Because of this increased debt, Amtrak's repayment requirements (principal and interest) are forecast to be approximately $273 million in FY 2005 (up from $111 million in 1997), and Amtrak finds itself unable to borrow any more money, even for short-term needs. Amtrak and some others have recently suggested (as in the 1980s) that the company again be absolved from this debt by the federal taxpayers' assumption of *all* of it, instead of the federal appropriation covering only 40 percent of Amtrak expenses during the last two fiscal years. Amtrak would give the federal government nothing in return. That is unacceptable to the Administration. Likewise, some have suggested empowering Amtrak to issue new debt, or authorizing others to do so for Amtrak's benefit, in the form of taxpayer-financed tax credit bonds or something similar. That would be just another back-door subsidy to Amtrak that would be unacceptable to the Administration.

Passenger rail is already the most heavily subsidized form of intercity passenger transportation. When viewed on a per-passenger mile basis, analysis by the Bureau of Transportation Statistics indicates that the aggregate federal expenditure for intercity passenger rail is 30 times greater than for commercial aviation. Likewise, the intercity bus industry, where there are no comprehensive or dedicated subsidies, carries as many as 350 million passengers annually (according to Eno Foundation estimates)—fourteen times Amtrak's ridership. Although not comprehensive or directed, the Federal Transit Administration under 49 U.S.C. section 5311(f) provides for grants for supporting rural intercity bus service, but that grant program amounted to approximately $22 million in FY 2004, which is obviously minor compared to the taxpayer burden for Amtrak each year.

What is more clear now than ever is that the basic business model through which we provide intercity passenger rail service in this country--a single, nationwide monopoly called Amtrak--is unworkable and is not adequately positioned to respond to the changing transportation needs of this country. Massive increases in funding to merely slow a downward spiral are neither sustainable nor justifiable. At the same time, doing nothing at all will eventually result in a business failure and a lost opportunity for intercity passenger rail for this country. A change is needed.

As I noted earlier, Amtrak has received more than $29 billion in taxpayer subsidies, including more than $1 billion in each of the last two years, despite the 1997 Amtrak Reform Act, which precluded operating subsidies after 2002. In 2003 and again this year, the Administration sent to Congress the President's Passenger Rail Investment Reform Act. This proposal would align passenger rail programs with the model through which we fund other transportation modes. Under that model, the States work in partnership with the Federal government in owning, operating, and maintaining transportation facilities and services. H.R. 1713 provides clear and compelling principles of intercity passenger rail reform that should be embraced by those who sincerely want to save intercity passenger rail nationwide.

III. REFORM AND PRESERVATION OF INTERCITY PASSENGER RAIL

As we have stated in the past, the Administration supports the availability of intercity passenger rail, but with a different vision than the model that exists today. Secretary Mineta has repeatedly set out the fundamental principles needed to reform intercity passenger rail and place this form of transportation on a sound footing. These principles are:

- ***Establish a long–term partnership between States and the Federal Government to support intercity passenger rail***: Partnerships between the States and the Federal Government for the planning, decision-making and capital investment in transportation have been one valuable element in the success of Federal programs for highways and transit to date. The States, through their multi-modal planning mechanisms, are in a much better position to determine their intercity mobility needs and which form of investment makes the most sense in meeting these needs than a sole supplier company in Washington, D.C. State-supported intercity passenger rail services in places like the states of Washington, North Carolina, California, and Wisconsin have been one of the bright spots for intercity passenger rail ridership.

- ***Require that Amtrak transition to a pure operating company***: Amtrak today is both an operating company and the owner and maintainer of significant infrastructure that forms a key component of the intercity and commuter transportation systems of eight states in the Northeast, as well as many stations and other facilities that have local or regional transportation importance. These are two very different functions. By having them both reside in the same entity, the company is faced with conflicting priorities, which the company has found difficult, if not impossible, to balance. Infrastructure decisions have depended on Amtrak decisions, rather than those of the States and localities who are largely responsible for such planning in other transportation modes such as highways, airports, and transit. Amtrak, and the nation's transportation system, would be better off with Amtrak able to focus on one thing--operating trains--and doing it well.

- ***Create a system driven by sound economics***: One of the flaws of the 1970 model is that intercity passenger rail has sometimes been defined by politics, habit and fear of change. That is one reason that some routes have high subsidies, such as the $466 per passenger subsidy in FY 2004 on the Los Angeles to Orlando *Sunset Limited*. Intercity passenger rail needs to serve the markets where there is an identifiable demand that intercity passenger rail can meet. It cannot and should not try to serve every market regardless of the cost and regardless of the revenue. Just as with other transportation modes and other successful businesses in general, intercity passenger rail needs to have the dexterity to recognize changing business patterns and demand, and that sometimes the services of yesterday are not needed or justified today or tomorrow. Intercity passenger rail service needs to be designed to cost-effectively meet and support the transportation needs of the traveling public and sponsoring public authorities.

- ***Introduce carefully managed competition to provide higher quality rail services at reasonable prices***: For the last 34 years under the 1970 model, intercity passenger rail service has not been subject to the discipline of the market place. On corridor services, for example, States do not have any alternative but to have Amtrak operate the intercity service. This has resulted in a service that is more costly than one would expect in a competitive situation, and which often has not been responsive to changing transportation patterns, demands or expectations. In a free market economy, competition leads to improved cost effectiveness, higher quality and innovation, elements that have been sorely lacking in intercity passenger rail for the past generation. Transition to competition is never easy, but it is necessary for the public to get the service it demands and deserves.

- ***Create an effective public partnership, after a reasonable transition, to manage the capital assets of the Northeast Corridor***: The Washington-New York City-Boston Northeast Corridor main line is the most heavily utilized rail route in the country, forming an essential link for intercity passenger and freight transportation and commuter access to the major cities of the Northeast. By some measures, such as the number of persons per day that use this infrastructure, Amtrak is a minority user of this infrastructure – particularly in urban areas. Transportation services on this corridor need to be insulated from the unpredictable consequences of Amtrak's own finances and needs at any given time. At least initially, the ownership of these assets should be in the public sector, and management and control of this asset should reflect significant input from the States that depend on the Northeast Corridor for passenger and freight mobility.

These are the principles that should be used to evaluate any legislative proposal regarding Amtrak and intercity passenger rail generally. It is encouraging that Amtrak itself has embraced several (but not all) of them in its Strategic Initiative plan. It is encouraging that certain subcommittees of the Congress have embraced at least some of them in legislative proposals. Unfortunately, to date, no legislation has adopted all of the principles or enacted all of what is needed. There is more work to do, and the Secretary and I would be gratified if this Subcommittee would pursue the principles, goals, and proposals set out in H.R. 1713.

As Secretary Mineta and I have regularly stated, DOT stands ready to work with Congress to discuss and fashion the specifics of legislation in ways that will successfully reform intercity passenger rail for the future. The time for reform is now. We need true reform legislation during the 109th Congress.

Conclusion

Without reform, Amtrak is not sustainable at its current level of funding or at any level Amtrak is likely to receive in these difficult budgetary times. Moreover, history tells us that merely throwing money at the 1970 model of intercity passenger rail without addressing the problems that have been identified in the subsequent years does not result in any long-term improvements in Amtrak's finances or quality of service.

The Administration intends to continue to pursue reform. Secretary Mineta and I will work diligently with Amtrak's other Board members and management to make necessary changes at Amtrak itself, including those outlined in Amtrak's Strategic Reform Initiatives. More broadly, we look forward to working with this Subcommittee and with Congress to implement reform and enhancement of intercity passenger rail. Thank you for the opportunity to share our perspective today. I would be pleased to respond to any questions you may have.

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